

# Integrated Cost Analysis Teams

## How ICATs Support Better Buying Power 2.0

*Jason B. Newman*

John DelGreco starts each morning at 0600 at the Defense Contract Management Agency (DCMA) Raytheon Tewksbury Contract Management Office (CMO). He's been doing it a while. January 2014 represented the start of his 27th year as a contract price/cost analyst at DCMA. Over the course of his career, he has seen many changes within the agency and the pricing career field.

In the early 1990s, with mandatory personnel reductions, the pricing function began its slow move away from DCMA and toward the buying commands. When DelGreco first started at DCMA, 12 price/cost analysts and six cost monitors assigned to the CMO were performing pricing work. By 2008, only two price/cost analysts remained at the CMO. In April 2009, however, this was all set to change as Ashton Carter was appointed the Under Secretary of Defense for Acquisition, Technology and Logistics.

### **Affordability to the Forefront**

In June 2010, Carter released a memorandum for all acquisition professionals, titled "Better Buying Power: Mandate for Restoring Affordability and Productivity in Defense Spending." He articulated a vision of program affordability by targeting unneeded programs and activities, as well as the goal of "delivering better value to the taxpayer and improving the way the Department does business." One of the ways to accomplish this was to place greater emphasis on pricing at the major defense contractors. This core capability had become lost with all of the downsizing and reorganization within the Department of Defense (DoD). Pricing analysis at the major defense contractors became one of his highest priorities, and he wanted to reform the way the Pentagon bought goods and services. Coupled with a dynamic political environment, affordability became the axiom and even more critical to DoD's future success.

### **The Budget Crunch**

As the DoD focused on making acquisitions more affordable, political realities intensified that need. In August 2011, President Obama signed into law the Budget Control

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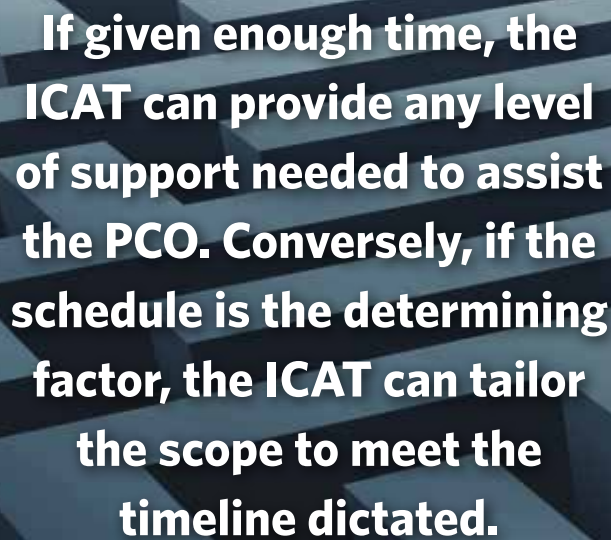
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Act, creating the Joint Select Committee on Deficit Reduction. By design, this committee was responsible for producing deficit reduction legislation. If it failed, the law would trigger automatic spending cuts called “sequestration.” The intent of the legislation was to act as an enforcement mechanism. If the committee failed to reach an agreement, the automatic spending cuts would go into effect. That is exactly what happened. No agreement was reached by the deadline, and the automatic cuts went into effect (after an initial delay) in March 2013. The DoD was hit with half of the required cuts in discretionary spending. Its share of the bill was approximately \$980 billion over the next 10 years.

### **DCMA Response**

In 2011, Shay Assad became director of defense pricing and set out to fulfill Carter’s articulated “affordability” vision. He instructed DCMA to begin a restructuring focused on providing better pricing capability for the DoD. What was his stated goal? “DCMA should know more about the contractor’s proposals and business systems than the contractor.” This was DCMA’s opportunity to level the playing field when it came to negotiations.

DCMA wanted to create a dedicated cadre of personnel focused on specific work, including rates, indirect costs, cost monitoring, cost accounting standards/disclosure statements and other items. The solution was to align the divisional administrative contracting officers (DACOs) and cost monitors from the CMOs with the Cost and Pricing Center corporate

administrative contracting officer (CACO). Besides aligning them within the same reporting chain, this action lined up the CACO and DACO work on a corporate structure basis and created consistency for all companies across their different business segments. The next step in embodying the affordability mandate was establishment of the integrated cost analysis teams (ICATs) at the major defense contractors.

### **Establishing the ICATs**

The plan set four criteria for the ICAT implementation. First, the selected contractor locations had to have more than \$3 billion in the general-and-administration business base. Second, there had to be an existing, in-plant DCMA presence. Third, a DACO was required on site. Fourth, there had to be significant current, or potential, pricing work. Based on these criteria, a total of 10 ICATs were established (eight in 2012 and two in 2013). The companies and locations were Bell Helicopter, Boeing St. Louis, Boeing Philadelphia, General Electric Evendale, Lockheed Martin Fort Worth, Lockheed Martin/United Launch Alliance Denver, Northrop Grumman/General Atomics Redondo Beach, Raytheon Tucson, Sikorsky Stratford and Raytheon Tewksbury.

According to the ICAT vision statement, the ICATs aim “to be the leading experts in complete proposal analysis, enabling our partners to achieve contract objectives.” The specific purposes of the ICAT are to (1) provide complete proposal analysis, (2) support customer proposal negotiations and (3) perform continuous evaluation of the contractor’s estimating system.

### **Proposal Analysis**

The ICAT is composed of technical experts and business advisors who perform in-depth, integrated price and technical reviews and analysis of the contractor’s cost/price proposals. The objective is to provide the customer and its procuring contracting officer (PCO) with a supportable and sustainable starting position for negotiation.

The ICAT can deliver full pricing and technical analysis on any proposal or contract; however, the primary emphasis for ICATs is support for major proposals (\$250 million and above). The Defense Federal Acquisition Regulation Supplement (DFARS) audit thresholds (\$10 million for fixed contract types and \$100 million for cost type contracts) play an integral role in coordination efforts with Defense Contracting Audit Agency (DCAA). While the expectation is that DCAA will perform an audit on the proposals over the DFARS threshold, the ICATs perform technical analysis and assess the rate recommendations on those proposals as well, arming the PCO with an all-encompassing report.

Requesting DCMA assistance is straightforward. The customer receives a proposal in response to a request for proposal and then submits a request to the cognizant DCMA administrative contracting officer (ACO) asking for field pricing/technical support for their negotiations. The ACO then coordinates with the ICAT, and analysis begins.

**Table 1. ICAT: DCMA Lines of Service Supporting Better Buying Power 2.0**

**BETTER BUYING POWER INITIATIVE: ACHIEVE AFFORDABLE PROGRAMS**

**DCMA Lines of Service: Cost and Pricing Services**

*Support Negotiations*

- Real-time model updating
- Complete customer engagement
- Supportable/sustainable input
- Unprecedented contractor insight

*Review Proposals*

- Review material/labor hours
- Analyze historical data
- Coordinate audit assists
- Assess subcontractor performance
- Verify rates
- Tailor-made to fit user needs

**BETTER BUYING POWER INITIATIVE: ELIMINATE UNPRODUCTIVE PROCESSES AND BUREAUCRACY**

**DCMA Lines of Service: Major Program Support**

*Reduce Cycle Times*

- Targeted 45 days or less turnaround
- Simplified notification through ACO
- Prompt acknowledgment process
- Reduced outside dependency
- Self-sustaining organization

*Reduce Overhead*

- Streamlined peer-review process
- Comprehensive internal quality review
- Direct ICAT-to-customer product dissemination

**BETTER BUYING POWER INITIATIVE: CONTROL COSTS THROUGHOUT PRODUCT LIFE CYCLE**

**DCMA Lines of Service: Contractor System Reviews**

*Evaluate Business Systems*

- Review contractor business practices
- Validate cost-estimating relationships
- Assess accounting systems

*Support Divisional ACO*

- Supplement cost-monitoring activities
- Evaluate cost reduction initiatives
- Perform disclosure reviews
- Analyze pricing rate agreements
- Perform independent research and development analysis

**BETTER BUYING POWER INITIATIVE: INCENTIVIZE PRODUCTIVITY AND INNOVATION**

**DCMA Lines of Service: Major Program Support**

*Support DCAA*

- Perform technical analysis on all DCAA audits
  - Primary emphasis on major proposals (> \$250 million)
  - Arm PCO with all-encompassing report
- Perform technical review of progress payments

*Engage Contractor*

- Participate in contractor cost-estimating manual revision
- Review management of subcontractors
- Evaluate supplier proposals

The goal is to provide the government negotiator the best proposal analysis based on the customer's requirements. If given enough time, the ICAT can provide any level of support needed to assist the PCO. Conversely, if the schedule is the determining factor, the ICAT can tailor the scope to meet the timeline dictated.

### Support for Customer Proposal Negotiations

The proposal analysis the ICAT provides establishes a "supportable" negotiation starting point. However, the ICAT's charter doesn't end when the analysis is done. Another primary focus is to provide the PCO and customer with a "partner at the negotiation table." The ICATs are designed and staffed to directly support negotiations.

ICATs have a unique insight beneficial to government negotiations. Unlike other members of the System Program Office integrated product team, the ICAT has immediate, on-site, contractor access. The team can review contractor financial, supply chain and estimating systems for actual costs and labor

hours. The team can verify that the ICAT proposal analysis performed is supportable and sustainable. The ICAT can further enhance negotiations by delivering real-time cost-modeling updates as the talks progress.

Ultimately, the goal is to put the government negotiators in the best position to get the warfighters what they need—on time and on cost. Both proposal analysis and negotiation support represent how the ICAT can directly benefit the PCO or customer.

### Continuous Evaluation of Contractor's Estimating System

As part of the annual DACO support, the ICAT is charged with several overarching requirements that affect multiple proposals. Here are some examples:

- Incorporate cost-estimating relationships (CER) reviews into every analysis. A CER is a mathematical equation in which a cost is expressed as a dependent variable of one

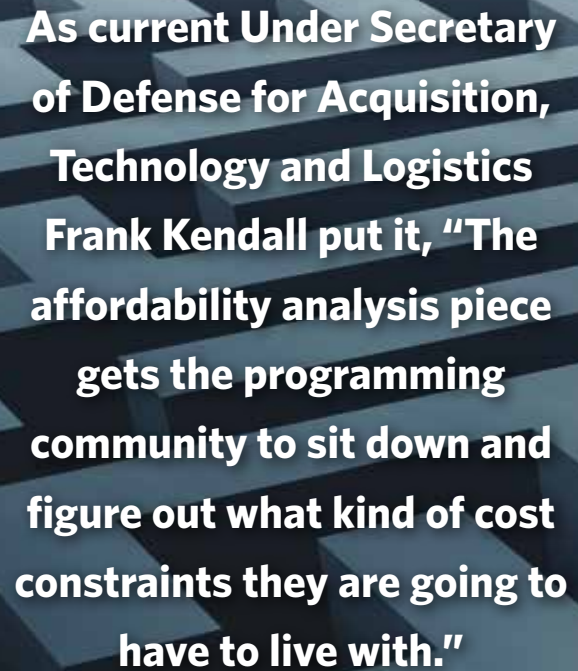
or more independent variables. The ICAT analysis ensures that the equation's underlying data is accurate, applicable and current.

- Review of the contractor's independent research and development (IR&D) efforts. The IR&D is a company expense for future research efforts. The ICAT certifies that the projects have a valid government benefit, are appropriately categorized, and are compliant with DFARS 231.205-18.
- Evaluate and assess the value, implementation and potential savings of contractor-proposed cost reduction initiatives through monitoring and tracking.
- Develop and maintain historical data on negotiated and actual costs to execute the business base review for forward-pricing rate proposals.

Table 1 summarizes the DCMA lines of service that ICATs provide in support of Better Buying Power 2.0. The bottom line is that ICATs seek to control costs throughout the product life cycle by providing expert proposal analysis, supporting negotiations and continuously evaluating the contractor's estimating system.

### Going Forward

The mandate for affordable programs will not be going away anytime soon. As shrinking budgets continue to be stretched across more and more programs, the emphasis to find savings at all levels will dominate the conversation. As current Under Secretary of Defense for Acquisition, Technology and Logistics Frank Kendall put it, "The affordability analysis piece



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## MDAP/MAIS Program Manager Changes

With the assistance of the Office of the Secretary of Defense, *Defense AT&L* magazine publishes the names of incoming and outgoing program managers for major defense acquisition programs (MDAPs) and major automated information system (MAIS) programs. This announcement lists all such changes of leadership for both civilian and military program managers that occurred in recent months.

### ***Navy/Marine Corps***

**Capt. William McNeal** (USN) relieved **Capt. Didier Legoff** (USN) as program manager for the Tactical Networks Programs (PMW 160) on Nov. 1.


**Capt. Jaime Engdahl** (USN) relieved **Capt. Carl Chebi** (USN) as program manager for the Precision Strike Weapons Programs (PMA 201) on Dec. 16.

**Capt. John Bailey** (USN) relieved **Capt. John Green** (USN) as program manager for the Next Generation Jammer Program (PMA 234) on Jan. 24.

gets the programming community to sit down and figure out what kind of cost constraints they are going to have to live with." DCMA will continue to emphasize its renewed focus on improved technical and pricing capability to support the Better Buying Power 2.0 and Affordability initiatives. The ICAT is the embodiment of that improved support.

Charlie Williams, former DCMA director, stated,

Nothing the department is doing today in the procurement and acquisition business has as much focus as support for the affordability initiative. The re-building of DCMA's pricing capability is at the heart of our support to this initiative. The stand-up of these ICATs ensures expert pricing assistance is available to support the Department's major defense program teams and decision makers.

As John DelGreco prepares to leave for the day, he realizes that change is still coming, but the focus has shifted. He is now part of the Raytheon Tewksbury ICAT. For him, history has come full circle. The ICAT now consists of seven engineers and eight price analysts with a wide range of experience. This entire team is dedicated to providing the needed proposal pricing and technical support. It is the physical embodiment of DCMA's vision to support the Better Buying Power 2.0 and Affordability initiatives. 

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